This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 ANKARA 008379

SIPDIS

SENSITIVE

STATE ALSO FOR E, EB, AND EUR/SE
TREASURY FOR OASIA - MILLS
USDOC FOR 4212/ITA/MAC/OEURA/CPD/DDEFALCO

E.O. 12958: N/A
TAGS: ECON EFIN PGOV EINV TU
SUBJECT: INCOMING GOVERNMENT'S ECONOMIC ACTION PLAN

¶1. (SBU) Summary: The economic elements of the incoming government's action plan, announced by Party leader Tayyip Erdogan on November 16, reflect AK's efforts to balance its desire to boost the "real economy" and help the poor with its need to reassure markets and maintain fiscal discipline. Erdogan pledged that the new government would cut unnecessary government spending, accelerate privatization and energy sector liberalization, implement tax reform, provide incentives to small and medium-size enterprises, and sell the assets of failed banks. He said the government would engage quickly with the IMF but would seek to address "deficiencies" in the current program in supporting the real sector, agriculture, and social problems. The action plan contains a number of positive things but also raises questions, particularly on the budgetary impact of some AK proposals. Analysts are generally withholding judgment until they see the details. End Summary.

¶2. (SBU) On November 16, AK Party leader Tayyip Erdogan announced the incoming government's "Emergency Action Plan," with measures to be implemented in its first month, first three months, first six months, and first year. The plan gives a sense of AK's priorities, but is short on details. Highlights include:

First Month

-- establish a strong Economy Ministry to oversee macroeconomic/financial policy.

-- Rapidly complete an interim budget and expedite preparations for the 2003 budget and program.

-- While maintaining the overall framework of the IMF program, work to address "deficiencies" in the current program regarding the real sector, social policy, and agriculture.

-- Begin work on tax reform and abolish the Financial Year Zero law (which would have required people/corporations to explain, beginning in January 2003, the source of their money).

First Three Months

-- Simplify and reform the tax structure with the aim of broadening the tax base, and establish a "tax truce" (which, as we understand it, would be designed to facilitate long-term payment of overdue taxes).

-- Expedite privatization by grouping state enterprises and developing privatization strategies for each group.

-- Promote the "real sector" by creating a better investment environment, providing free land to investors, and "reformulating" incentive measures.

-- Promote exports by strengthening the Export-Import Bank, working with the private sector on a strategic plan to boost exports, and lowering input costs to exporters.

-- Open the energy market to competition, and eliminate the

Turkish Radio and Television Administration part of electricity prices.

First Six Months

-- Begin construction on a 15,000 kilometer dual highway system.

-- Pass a new law on public finance administration that introduces internal financial controls, enhances the efficiency of budget preparation, and increases financial transparency.

-- Accelerate collection of debts owed to the SDIF and the sale of assets of failed banks.

-- Enact unspecified measures to support small and medium-size enterprises and to facilitate the recovery of those companies hardest hit by the crisis.

-- To support farmers, reduce taxes on fuel oil and eliminate deficiencies in the direct income support program (to direct it more toward poorest farmers).

-- Ease restrictions on foreign investment in the tourism sector.

First Twelve Months

-- Complete Transfer of Operating Rights energy projects, and reduce electricity waste and theft.

-- Bring the public tender law fully in line with EU standards.

¶3. (SBU) Incoming Prime Minister Abdullah Gul supplemented Erdogan's announcement in an interview November 17. He said the new government would shrink the state, strengthen independent regulatory boards, improve the environment for foreign direct investment, and maintain the Central Bank's independence (no printing of money).

¶4. (SBU) Analysts have welcomed AK's efforts to lay out an ambitious agenda, but generally are withholding judgment due to the lack of details in the action plan. Lehman Brothers, for example, welcomed AK's emphasis on privatization and improving the foreign direct investment environment, but wondered about the budgetary impact of other proposals, including possible tax cuts. Lehman also noted that the plan does not address many of the outstanding conditions for the fourth IMF review, such as laying off of state enterprise workers. IMF ResRep expressed similar views, and noted that his staff was preparing written comments on the plan.

¶5. (SBU) Comment: This plan reflects AK's efforts to balance strong pressure to help small-medium size business and the poor with the need to reassure financial markets and maintain fiscal discipline. The emphasis on privatization and improving the investment environment is good news. More troubling are the various proposals to cut taxes and/or provide additional "incentives" for the real economy. AK appears overly optimistic that it will be able to fund these out of savings gained by squeezing waste and fraud out of government spending. A key question will be whether it delays any new spending or tax cuts until it demonstrates its ability to achieve such savings. Abdullah Gul, pressed on this question in a Sunday interview, said AK would start off with a primary surplus target of 6.5 percent of GNP, but might renegotiate that if interest rates declined sufficiently to ease Turkey's fiscal constraint.
PEARSON